

REMARKS

EXAMINER INTERVIEW SUMMARY: A brief conversation was held between the Examiner and the undersigned on September 18, 2008, to discuss antecedent issues for claim terms in claim 1.

Claims 1 and 2 have been amended. A new dependent claim 27 has been added. Accordingly, claims 1-4 and 23-27 are pending in the present application. The basis in the specification for the amendment to claim 1 may be found at least at paragraph 17 of the specification.

Applicant's claimed invention calls for an investing assets step into a selected set of current, in-force life settlement contracts, i.e., a purchase of a set of life settlement contracts on the secondary market. The selection is based on (1) the contracts not insuring a beneficiary of the pension plan operating the method, and (2) the remaining life expectancy of each insured is within a predetermined limit. Note that criteria 1 and 2 go together, namely, the system could not perform the criteria 2 if the life settlement contracts were with beneficiaries of the pension funds, as such a pension plan is open to employees of all ages.

The claimed invention further calls for a valuation step to be performed by an apparatus based on an actuarial present value, where "the actuarial present value is calculated using a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred," which results in a transformation/conversion of asset value. The step is then performed of maintaining or having maintained the enforceability of the selected set of current, in-force life settlement contracts and processing or having processed death benefits arising from the life settlement contracts.

The claims had been rejected under 35 USC 103 as being obvious over Halley et al (US 4,696,094) in view of Banks (US 20003/0018498), and further in view of Koresko (US 2006/0080148). This rejection is respectfully traversed and reconsideration is requested.

Neither of the cited references discloses or suggests in combination:

1) the purchase of a “selected set of current, in-force life settlement contracts sold by owners of the current, in-force life settlement contracts” on the secondary market with precise selection criteria “*is selected so that the insured is not a beneficiary of the pension plan, and is selected so that a respective remaining life expectancy of each of the insureds is within a predetermined limit.*”

2) a machine calculation, i.e., “calculating periodically by the pension plan or having calculated, by means of an apparatus, a total value of the pension plan assets inclusive of the ownership interest in the selected set of current, in-force life settlement contracts so acquired, to thereby convert a value of the assets of the pension plan used to acquire the ownership interest in the selected set of current, in-force life settlement contracts into an actuarial present value of the ownership interest in the selected set of current, in-force life settlement contracts, wherein the actuarial present value is calculated using a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred.”

The actuarial present value calculation used to obtain the transformation in the amended claim, uses “a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred,” is a method of calculation for assets permitted by the GASB (Governmental Accounting Standards Board). For life insurance settlement contracts, the operation of this method allows the valuation of the policy not at either the cash surrender value or the acquisition value as required by the Financial Accounting Standards Board (“FASB”) for assets held by private corporate entities, but rather at a value which gives weight to the probability of death. The calculation is described at page 7 of applicant’s specification. For each contract the actuarial present value comprises the sum of the amounts calculated for every out year through the final year of an actuarial table appropriate for

that particular insured. Each amount calculated for every out year means the present value at an appropriate interest rate, of the product of the probability that the insured will die during such out year multiplied by the death benefit. This actuarial present value will increase at each subsequent valuation period as the probability of the insureds death in each out year increases.

Halley et al. discloses a method for an employee to self-implement a pension by obtaining a reverse annuity from a lending institution 12 that is secured (collateralized) by an insurance policy naming the lending institution as the beneficiary. The life insurance policy is purchased by either the system or the insurer (the specification is not clear on who the purchaser is) using predetermined periodic contributions from the employee. The lending institution 12 receives assignment of the policy as collateral and is named as the beneficiary. See column 1, line 62- column 2, line 9, column 2, lines 48-62, and claim 1. The lending institution 12 then makes periodic benefit payments to the employee after retirement. When the employee dies, the lending institution 12 receives the death benefit from the life insurance policy.

With respect to amended claim 1, the pension plan of **Halley** (the lending institution 12): does not invest in and own life settlement contracts of individuals, and the policies are not limited to individuals who are not beneficiaries and with a remaining life expectancy within a predetermined limit. Rather the lending institution 12 is assigned the life insurance policy of its beneficiary as security for the reverse annuity. See column 2, lines 9 and claim 1. Thus, there is never a purchase of a life settlement contract using the selection criteria set forth for the investing, which specifically excludes investing in life insurance contracts of the employees of the pension plan or investing in policies on insureds with life expectancies longer than the predetermined limit. Halley et al. has the employee or the insurer purchase the life insurance contract on the employee himself and name the lending institution as the beneficiary as security for the reverse annuity, regardless of the employee's life expectancy.

Regarding the second important aspect, the examiner admits that **Halley** does not perform the “wherein the actuarial present value is calculated using a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated

with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred,” to transform the assets used to purchase the single insurance contract to an actuarial present value of the contract. Note that the lending institution would have no reason to do this, as this is simply a collateralized transaction.

Banks discloses an employee benefit plan that includes a self-funding survivor benefit plan. Banks' employee benefit plan identifies certain high-earning employees as high risk employees (paragraph 9), and then purchases life insurance on those high risk employees in order to pay survivor benefits for the survivors of those high risk employees. See paragraphs 18, 24, 35, and 42 of Banks. In contrast to our previous understanding, Banks may also purchase life insurance policies as a general funding mechanism so as to reap the proceeds on the death. No selection criteria are disclosed for such purchases.

Importantly, the high risk employee funding strategy is clearly a private sector function governed by the FASB accounting rules, as high level government employees are not entitled to the large survivor income benefits that corporate CEO's routinely obtain. Also indicative of the private sector is the reference to calculating a present value of stock options; something not present in government service. In Banks, reports are generated to identify based on the present value calculation certain high risk employees whose survivor benefits exceed the employer's risk tolerance. For such high risk employees, the fund purchases insurance contracts on the high risk employees themselves (paragraphs 38, 42, 43) in order to obtain needed cash flow and portfolio yield (paragraph 42).

The probability of death is not a factor in the private sector Banks operation, which is subject to FASB accounting rules. See the Declaration of Robert Phelps submitted herewith. In contrast, it is a transformative factor in the claimed invention.

Additionally, there is no motivation to combine Banks and Halley. One of ordinary skill in the art would not look to combine the operations of a system for funding survivor benefits for high salary individuals in a pension plan (Banks) with a system for allowing an individual to self implement his own individual pension plan (Halley), and they would not be lead to the claimed system, as these references when combined, do not disclose all of the claim element.

A direct comparison of the FASB calculations used to obtain a Fair Valuation for a life settlement contract vs. the claimed calculation to illustrate why the claimed operation in the

context of the claimed system results in a value transformation is set forth in **Exhibit F** of the Phelps Declaration, submitted with this amendment. A comparison of the Fair Value column on the first page of **Exhibit F** with the Actuarial Present Value” column on the first page demonstrates this value transformation.

In summary, (A) the Banks patent does **not disclose** investing/ purchasing, using prescribed selection criteria, a set of current, in-force life settlement contracts from the owners of the contracts from 1) non-employees, and 2) having a remaining life expectancy within predetermined limits. (B) The Banks patent cannot couple this selection of assets with the claimed transformation calculation on those asset values to obtain the increasing valuation. Any general modeling of the survivor income benefit plan in Banks would never calculate the claimed actuarial present value “wherein the actuarial present value is calculated using a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred,” as **Banks is a private sector operation that is subject to FASB accounting rules.**

As neither reference discloses or suggests investing in a set of current, in-force life settlement contracts from the owners of the contracts, using the prescribed selection criteria set forth in the claim, and neither reference discloses or suggests an actuarial present value calculation “wherein the actuarial present value is calculated using a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred,” by or for the pension fund purchasing the life settlement contracts, to transform the assets used by the pension fund to purchase the single insurance contract to an “actuarial present value” of the contract as discussed previously, the combination of these two references could not suggest to one of ordinary skill in the art the claimed invention. There is nothing in the art that supplies the missing claim elements or provides any form of roadmap to produce the claimed system in the manner claimed.

The reference Koresko is cited by the examiner for the step of maintaining insurance policies. Koresko discloses a defined benefit pension plan that uses life insurance contracts on its own members to fund the pensions. See paragraphs 16, 47, 48, and 56. Note that in paragraph 56 it is explained that the insurance company determines the premiums necessary to fund the benefits contemplated. In other words, these are not life settlement contracts purchased on the secondary market from owners, with specific selection criteria and set premiums.

The examiner states in his office action that applicant cannot attack references individually. That is not correct. At least one of the references must disclose the claimed feature, and the disclosure must be in such a context that one of ordinary skill would be motivated to make a combination of the features from the three references to create applicant's claimed invention.

First, the examiner states that Halley discloses selecting and purchasing from owners life settlement contracts, with selection criteria of 1) the insured not being a beneficiary of the life settlement contract, and 2) selected so that the remaining life expectancy of the insured is within a predetermined limit. The examiner cites column 2, lines 45-68 and column 3, lines 1-15 of Halley for this disclosure. See page 3 of the Office Action. This statement is not correct. It states explicitly at column 2, lines 53-54, and column 3, lines 11 of Halley, that the life insurance is purchased on the life of the employee. Note also that the lending institution is receiving contributions/premiums from the employee. Thus, this is not a purchase of a life settlement contract on the secondary market from the owner. Note also that the second selection criteria of remaining life expectancy could not be met, since this is open to all employees, which could not be the case if there was a life expectancy selection criterion.

The examiner admits that Halley does not disclose the conversion of the value into an actuarial present value “wherein the actuarial present value is calculated using a method to increase a value of the ownership interest in each of a plurality of the acquired current, in-force life settlement contracts at each calculation period as a probability of death of a respective insured associated with a respective one of the life settlement contracts increases and the death of the respective insured has not occurred,” but states that this is met by Banks, citing Banks at

paragraphs 21, 34, 42 and 43. See page 4 of the Office Action. But paragraph 21 only discloses calculating a present value of a survivor income benefit, calculating a present value of current assets, and determining a shortfall and providing data so that sufficient assets of various types can be purchased to meet the projected benefits, and determining the employee contribution to acquire those assets. Paragraph 34 relates to employer/employee data. Paragraph 42 discusses investing employee contributions stocks, bonds or insurance contracts or insurance contracts to cover certain high risk employees. Paragraph 43 discusses the fact that gains inure to the plan participants and the advantages of purchasing life insurance policies on pension plan participants – something expressly excluded by the claimed selection criteria. In other words, none of these Banks paragraphs discuss or suggest the transformative calculation as described in the claim that increases the value of the ownership interest in the life settlement contracts on the periodic calculations, because Banks is subject to FASB accounting rules. See the Declaration and Exhibits of Robert Phelps, filed herewith. To the extent that the Examiner maintains this rejection, the Examiner is requested to provide the differences of the claims over the cited art and to explain how each element is met in the prior art, per MPEP 2141.02.

Claims 3 and 4 further limit the selection criteria to not exceeding a specified life expectancy, i.e., 20 years in claim 3, and 15 years in claim 4. These selection criteria claim elements are Not disclosed or suggested in either reference. The examiner cites paragraph 47 of Banks for this disclosure. However, the life expectancy calculated in paragraph 47 is for designated survivors of the employee and is not a selection criteria used in a step of selecting and purchasing life settlement contracts. There is no disclosure of using a specific life expectancy to purchase life settlement contracts on the secondary market

Claims 23-24 disclose investing in an ownership interest in a pool of life settlement contracts. The examiner cites Koresko at paragraphs 88-91 and 108-113 to disclose this limitation. However, these paragraphs cited by the examiner are in Appendix A of that patent, which is a sample contract between the plan sponsor and the insurance company, and has nothing to do with “*investing in an ownership interest in a pool of current, in-force life settlement contracts.*”

Claim 25 adds a further selection criteria for the in-force life settlement contracts, i.e., “*that there will be no relative concentration of dollar value amount attributable to a single*

insurer or carrier.” The examiner cites Koresko as paragraphs 142-146 for this additional selection criteria. However, these paragraphs relate only to the insurance policy meeting the conditions of Revenue Ruling 54-51.

Accordingly, in view of the present amendments and Remarks, the claims are now in allowable form. Early passage to issue is solicited.

The amendments and remarks are made without prejudice to any other or previously worded claims that have been filed or will be filed as part of this or related applications.

The Examiner is invited to contact the undersigned by telephone if it is felt that a telephone interview would advance the prosecution of the present application.

The Commissioner is hereby authorized to charge any additional fees which may be required regarding this application under 37 C.F.R. §§ 1.16-1.17, or credit any overpayment, to Deposit Account No. 19-0741. Should no proper payment be enclosed herewith, as by a check or credit card payment form being in the wrong amount, unsigned, post-dated, otherwise improper or informal or even entirely missing, the Commissioner is authorized to charge the unpaid amount to Deposit Account No. 19-0741. If any extensions of time are needed for timely acceptance of papers submitted herewith, Applicant hereby petitions for such extension under 37 C.F.R. §1.136 and authorizes payment of any such extensions fees to Deposit Account No. 19-0741.

Respectfully submitted,

Date 9/18/08

By 

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